

From: [Robinson Selina D](#)
To: [*TE/GE-EO-F990-Revision;](#)
CC:
Subject: Form 990 Redesign ltr. From NTA
Date: Tuesday, September 18, 2007 7:32:46 AM
Attachments: [Form 990 Redesign09142007.pdf](#)

Good morning!

Per instructions from Karen Tober I am forwarding the attached document.

Selina D. H. Robinson
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September 14, 2007

National Taxpayer Advocate

MEMORANDUM FOR E-MAIL (Form990Revision@irs.gov)
ATTN: SE:T:EO

FROM

Nina E. Olson 
National Taxpayer Advocate

RE:

Form 990 Redesign

I commend your effort to redesign Form 990 so as to enhance transparency, promote compliance, and minimize the filing burden on exempt organizations. I offer my comments on two issues as to which you specifically solicited comments in the *Background Paper Redesigned Draft Form 990*: (1) raising the Form 990 filing threshold, and (2) whether portions of the draft Form 990 can be used as a substitute for Form 990-EZ. I also offer a comment regarding Schedule A.

Filing Threshold

As stated in my 2006 Annual Report to Congress, I recommend that the Form 990 filing threshold be increased to \$50,000.¹ I further advocate the indexing of the filing threshold for inflation going forward.

I recommend these changes for a number of reasons. First, in requiring exempt organizations to file information returns, Congress did not intend to force small organizations "to consume the few assets they possess in order to hire lawyers and accountants to prepare an annual [return]."² Second, the filing threshold has remained static for the last 25 years while the Consumer Price Index has increased by more than 109 percent.³ Third, an increased filing threshold would greatly benefit small exempt organizations, approximately half of which have all-volunteer staffs and lack professional tax guidance.⁴ Such organizations would no longer have to comply with the cumbersome and complex Form 990

¹ See National Taxpayer Advocate 2006 Annual Report to Congress 483-495.

² Cong. Rec., S15647 (Nov. 24, 1969) (statement of Sen. Curtis). See also Cong. Rec., H7096 (Aug. 7, 1969) (statement of Congressman Mills listing Boy Scouts, Girl Scouts, and the PTA as examples of organizations that should be exempt from the filing requirements).

³ An exempt organization with gross receipts of \$25,000 in 1982 would have gross receipts of over \$53,000 in 2007 dollars. United States Department of Labor, Bureau of Labor Statistics, *Consumer Price Index Inflation Calculator*, at www.bls.gov/cpi.

⁴ See IRS, *TE/GE FY 2005 Strategic Assessment 3* (Feb. 2, 2005).

requirements or deal with Daily Delinquency Penalties when they make mistakes. Fourth, an increased filing threshold would benefit the IRS by decreasing calls to the overburdened tax-exempt toll-free customer assistance line and decreasing the resources needed to deal with Daily Delinquency Penalty abatements. Finally, because the Pension Protection Act of 2006 requires small exempt organizations whose gross receipts fall below the Form 990/Form 990-EZ filing threshold to file annual electronic notices with the IRS, there is little risk that relieving more small exempt organizations from the filing requirements will increase noncompliance or abuse.

Form 990-EZ

I urge the IRS to retain Form 990-EZ. The filing burden imposed by Form 990 is significantly greater than of Form 990-EZ. Just a few numbers highlight the vast difference between the forms. Form 990-EZ currently stands at 3 pages while the draft “core” Form 990 is 10 pages. The IRS estimate of the total amount of time an organization will spend preparing and completing the existing Form 990 is over 95 hours greater than the time estimated to complete Form 990-EZ.⁵

The burden on organizations that otherwise would have been eligible to file Form 990-EZ will be amplified even if such organizations were only required to complete portions of the redesigned Form 990. Those relatively small organizations would have to sort through Form 990 and its lengthy instructions in order to determine what sections they must complete in many cases utilizing volunteer time and without the benefit of professional guidance. They would undoubtedly make mistakes draining both the IRS’s and the small exempt organizations’ resources.

I also recommend that the existing \$100,000 gross receipts limit on Form 990-EZ filing eligibility be increased. The increase should at least be commensurate with the \$25,000 increase in the Form 990 filing threshold I propose, but could be set slightly higher. As you know, the rule that Form 990-EZ could be filed by organizations with gross receipts of less than \$100,000 was set in 1989.⁶ An exempt organization with gross receipts of \$100,000 in 1989 would have gross receipts of nearly \$168,000 in 2007 dollars.⁷ As with the Form 990 filing threshold, I suggest that the upper limit of the Form 990-EZ gross receipts test be indexed for inflation.

⁵ The estimates include time devoted to recordkeeping, learning about the law or the form, preparing the form, and copying, assembling, and sending the form to the IRS.

⁶ Announcement 89-34, 1989-10 I.R.B. 30.

⁷ United States Department of Labor, Bureau of Labor Statistics, *Consumer Price Index Inflation Calculator*, at <http://www.bls.gov/cpi>.

Schedule A

According to the *Summary of Schedules and Filing Profile*, slightly less than 75% of organizations filing Form 990 are required to file Schedule A. Yet, many exempt organizations fail to file Schedule A, thereby exposing themselves to Daily Delinquency Penalties. A missing or incomplete Schedule A is one of the most common Form 990 filing errors.⁸ When the IRS last reported Form 990 error frequency in FY 1998, more than 50% of all Form 990 errors were attributable to the failure to complete Schedule A.⁹

I recommend that the IRS revise the draft Form 990 to more clearly set forth the Schedule A filing requirements. While the draft instructions contain a helpful overview of the various schedules and which organizations must file them, I fear many exempt organizations do not and will not read every page of the lengthy instructions. I suggest that either the core form itself direct the appropriate organizations to attach Schedule A or that the summary of the schedules at pages 12 and 13 of the draft instructions be incorporated into a Form 990 filing checklist that is part of the core form, as has been done with Form 1023. Alternatively, the IRS could revise Form 990 to include Schedule A as part of the form.

Thank for your consideration of my comments. If you have any questions regarding these comments, please contact Holly O. Paz at (202) 622.6297.

⁸ See IRS, *Most Common Reasons IRS May Need to Contact You*, at <http://www.irs.gov/charities/article/0,,id=96359,00.html>; IRS, *Common Errors Made by Exempt Organizations, Filing Tips for Form 990*, at <http://www.irs.gov/charities/article/0,,id=96339,00.html>.

⁹ IRS, *Common Errors Found on the Form 990*, at <http://www.irs.gov/charities/article/0,,id=96339,00.html>.